Britain: Scandal over Mittal's donation to Labour reveals sharp divisions within establishment

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A scandal over a millionaire Indian businessman's donations to the Labour Party, and the extent to which this influenced government policy, has revived allegations of government corruption and sleaze.

Yet, whilst making headline news, coverage of the scandal is aimed at obscuring any real understanding of the issues involved. The longer the affair goes on, the clearer it becomes that rival sections of the political establishment are manipulating events for their own ends.

At first glance the issues seem simple. Late in May 2001, Lakshmi Mittal gave £125,000 to the Labour Party. On July 23, Prime Minister Tony Blair sent a letter to newly elected Romanian Prime Minister Adrian Nastase supporting a bid by LNM, Mittal's company, to take over the country's nationalised steel giant, Sidex.

A clear case of you scratch my back, and I'll scratch yours, assert Blair's most prominent critics—the *Sunday Telegraph* which leaked the story, the Welsh nationalist party Plaid Cymru and the Conservative Party. Not so, says the government. Blair was not aware of Mittal's donation when he signed the letter, which he did on Foreign Office advice. And, even if he had been, he would still have signed because the prime minister was doing what every good minister should do—standing up for British interests in a vital area of Europe that had just opened up to international investment.

The problem is that LNM isn't British, counters the opposition. Lakshmi Mittal is an Indian citizen, owing £471,000 in unpaid taxes and LNM is a global network, registered in the Dutch Antilles and employs just 100 people in the UK. More importantly, Mittal's specialism in buying up virtually defunct state-run factories in eastern Europe and Asia and turning them into cheap labour platforms, directly competes with what Blair's opponents argue are genuinely British firms. Thus, in backing Mittal's bid the prime minister was clearly filling the party's coffers above the interests of the nation. Calling for an inquiry, Conservative Party leader Iain Duncan Smith said, "We want to know why he [Blair] said it was British when it is clearly not British, and we now need to know just exactly what this arrangement was".

In a recent South Wales by-election Plaid Cymru used Blair's backing for LNM to accuse Labour of "actively undermining" Welsh steelworkers. Wales is home to the Anglo-Dutch Corus steel plant, which last year announced more than 6,000 job losses.

Its claims were supported by Graham Mackenzie, from Cardiff-based Allied Steel and Wire, who said that whilst his firm employed 1,300 people in the UK, and paid its taxes, it was not a recipient of government help. The firm had lost business worth £5 million due to competition from cheaper producers in Eastern Europe, Mackenzie said. At the very least the prime minister should apologise for backing a major competitor and "follow that up with some very specific action by the government to revitalise UK manufacturing".

Blair attempted to dismiss the affair as "garbagegate"—reiterating his claim that he knew nothing of Mittal's donation and that it had taken him just 30 seconds to sign the letter, at the request of Richard Ralph, Britain's ambassador to Romania. Both LNM headquarters and Lakshmi Mittal's home are located in London, and the millionaire is registered on the voting register, he said.

Cabinet office minister Lord Macdonald explained that "if you've got a global company like this [LNM], trying to position itself in different markets, then of course there may be contradictory elements to it. But what we are concerned about is backing a broad range of international opinion that says modernise Eastern Europe, modernise Romania, encourage that process and let Britain have an influence on it."

The *Financial Times* pointed out that Blair's letter endorsing Mittal's bid for Sidex—described in some newspaper articles as a "secret communication"—had been in the public domain for almost a year. Ambassador Ralph had read it aloud at a public ceremony marking the LMN deal last July and released copies to the press. So proud was the government of this missive that the British Embassy had posted excerpts on its website. In November, Prime Minister Nastase had addressed the Confederation of British Industry on Romania's "privatisation of the decade" and urged more UK firms to follow suit.

Writing in the *Guardian*, Hugo Young pointed out that, especially during Western intervention against Yugoslavia in 1999, the British government had been keen to keep Romania on board. Visiting the country that year, Blair promised British help for the country's accession into the European Union, in return for which the new government would have to demonstrate its commitment to dismantling the former state-run industries.

Privatisation of Romania's debt-ridden steel industry was seen

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as an important marker of its intent, whilst LNM's expertise in the takeover of such firms made it a leading bidder. Mittal's bid was backed overwhelmingly by the 23-country strong European Bank for Reconstruction and Development (EBRD). Established in 1991 to aid the privatisation of former nationalised industries in Eastern Europe, the EBRD also loaned LNM £70 million towards its £500 million acquisition costs.

Whilst stressing international backing for the bid, Labour has also defended its support for LNM as being governed by "national" concerns. Blair's involvement became crucial when LNM's bid looked shaky after France, an original contender for Sidex, revived its offer on more favourable terms. With French Prime Minister Lionel Jospin on his way to Bucharest to lobby for the French bid by Usinor, the British Foreign Office decided to go straight to Blair for help, and he duly obliged. Better a company with some links to Britain, no matter how tenuous, than allowing one of its major rivals to steal the march, runs the argument.

Unlike previous scandals, such as the £1 million donation by Formula One magnate Bernie Ecclestone to Labour, this one has largely failed to make an impact on much of the population, which fails to be morally outraged or surprised by either Blair's political relations with big business or his supposed lack of patriotism. But there are important issues raised by the controversy, even if one is understandably cynical about allegations of political sleaze emanating from the fetid swamp of the Tory party and its media.

The first is the extent to which Blair's Labour government functions wholly as a tool of big business. Dealings between corporate figures and politicians have always been a feature of British politics, but in the past such relations passed mainly through the Conservative Party as the primary political representative of British capital. The election of Blair as Labour leader changed all that. As part of the drive to break the party's historic connection with the working class, Blair ditched Labour's commitment to social reformism whilst seeking to develop a new social basis for its support amongst big business. In that sense Blair speaks the truth when he states that there is no conflict of interest between his government's policies and the interests of the major corporations. Labour's insistence that all political donations made by corporations should be publicly declared, far from breaking the ties between government policy and business interests, or making them more transparent, as Blair claimed, has only to served to institutionalise such relations as a basic feature of official politics.

Secondly, the affair has exposed the depth of the divisions within the bourgeoisie over questions of strategic orientation, specifically with regards to Britain's relations with Europe and America. Blair's claim that there is a perfect symmetry between Labour policy and business interests is foolhardy, given that it is impossible to speak of business as possessing a uniform world view that chimes with that of Number 10. Longstanding divisions over whether Britain is best served by an economic and political orientation to the US or the European Union have been brought to a head by the increasingly unilateralist stance of the Bush administration.

As relations between the US and Europe become ever more tense, the Conservative Party is demanding that British policy recognise the reality of the new mono-polar world and side firmly with America against Europe. They have seized on Blair's support for LNM to demonstrate how Labour's policy is undermining Britain's "special relationship" with its transatlantic ally.

LNM has been competing directly with American firms for the takeover of state-run industries in Eastern Europe. The US was the only country to oppose Mittal's bid for Sidex on the EBRD, whilst, more recently, LNM appears to have won out against the giant US Steel corporation to takeover the Czech republics loss-making Nova Hut plant.

If that was not enough, Mittal, who also runs Chicago-based Ispat Inland, America's sixth largest steel producer, has spent $600,000 (£420,000) lobbying Bush to impose trade tariffs on imported steel. Steel bosses in Britain, supported by the trade unions, have said that such tariffs would have a disastrous impact on Corus, which sells £250 million worth of steel to the US each year. Consequently, the Tories argue, Blair's support for Mittal has served to strengthen a major British competitor in its key market.

Differences within the ruling elite have become so antagonistic they can no longer be contained. Neither side of the policy divide believes that it can win a popular mandate for its policies and fight things out in an open and honest form. Consequently the whipping up or manufacture of scandals, disseminated through a politically biased media, is becoming the favoured means through which rival factions of the ruling class fight to ensure their political line wins out.

The state of almost permanent warfare within the establishment is destabilising every aspect of government. In an unprecedented move, a former top civil servant openly attacked Blair at the weekend. In an article in the *Sunday Telegraph*, Sir Richard Packer dismissed the prime minister's contention that Ambassador Ralph had been entirely responsible for the Mittal letter, and condemned Blair's intervention on LNM's behalf as "grossly disproportionate". Sir Richard Packer, who spent 33 years in Whitehall and nine years at the Ministry of Agriculture, retired in 2000 and was nominated for a knighthood by Blair in that year's honours list. In running his comments, the *Telegraph* was moved to state that there was "no suggestion" that Sir Richard Packer's comments were "the result" of civil service collusion, although his former colleagues "will derive much wry satisfaction from his devastating analysis".

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